McKay Securities Group

MCKAY SECURITIES PLC
PRELIMINARY RESULTS
8th June 2006

The Directors of McKay Securities PLC announce the results of the Group for the year ended 31st March 2006.

FINANCIAL HIGHLIGHTS

* Adjusted net asset value per share up 27.6% to 421p (2005 – 330p) – note 9

* Equity shareholders' funds up 21.9% to £165.96 million (2005 - £136.18 million)

* Final dividend up 9.7% to 6.8 pence per share (2005 – 6.2 pence per share). Total dividend for the year of 10.2 pence per share (2005 – 9.4 pence), up 8.5%

* Profit before tax of £46.01 million (2005 – £20.95 million
  Adjusted profit before tax £6.57 million (2005 - £6.78 million) – note 3

* Net rental income from investment properties up 37.6% to £18.37 million (2005 - £13.35 million)

* Revaluation gain of £35.87 million; an increase over book value of 13.4% (2005 – 6.8%)

* Diluted adjusted earnings per share up 4.8% to 12.28p (2005 – 11.72p) – note 6

* Weighted average cost of borrowing of 5.9% (2005 – 6.1%)

* Total shareholder return of 38.2% (2005 – 26.8%)

Eric Lloyd, Chairman, commented:

"I am pleased to report a year of substantial progress for the Group during which two major projects in the development programme were successfully completed and let. An important acquisition was made in Staines and continued income generation from lettings and portfolio management combined to produce record levels of net rental income from investment properties, with the value of the portfolio and shareholders' funds also reaching new highs. With the full benefit of income from recent lettings still to come through and further quality refurbishments due to be completed during this financial year, we remain confident of future growth."

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Details of the programme for the payment of the final dividend on the Ordinary Shares is as follows:

Ex dividend date	14th June 2006
Record Date for the final dividend	16th June 2006
Report and Financial Statements dispatched to Shareholders and also Notice of AGM	27th June 2006
Annual General Meeting to be held at 12 noon at The Royal Thames Yacht Club, 60 Knightsbridge, London SW1	27th July 2006
Final dividend paid	10th August 2006

CHAIRMAN'S STATEMENT

These are the first annual results to be presented to shareholders under International Financial Reporting Standards (IFRS), and show a pre-tax profit for the year to 31st March 2006 of £46.01 million compared with £20.95 million for the same period last year. Adjusted pre-tax profit, excluding non-recurring profit on sales and surrender premiums, revaluation gains and movement in the fair value of interest rate hedging instruments (note 2) was £6.57 million (2005 - £6.78 million).

A final dividend of 6.8 pence per ordinary share is recommended by the Board (2005 – 6.2 pence) payable on 10th August 2006. This takes the total dividend for the year to 10.2 pence (2005 – 9.4 pence); an increase of 8.5%.

The annual external valuation of the Group's property portfolio at 31st March 2006 totalled £303.18 million, resulting in a surplus of £35.87 million; an increase over book value of 13.4% (2005 – 6.8%).

Net asset value per share, adjusted to exclude deferred tax and the fair value of derivatives, increased by 27.6% from 330 pence to 421 pence.

Total shareholder return for the year, representing dividends paid and growth in share price, was 38.2% (2005 – 26.8%).

Review of the Year

I am pleased to report a year of substantial progress for the Group during which two major projects in the development programme were successfully completed and let. An important acquisition was made in Staines and continued income generation from lettings and portfolio management combined to produce record levels of net rental income from investment properties, with the value of the portfolio and shareholders' funds also reaching new highs.

In my interim statement, I noted that the pace of growth in income and profits would be determined largely by progress in securing tenants for the office developments at Wimbledon (58,690 sq ft) and Westminster (21,875 sq ft) both of which were recently completed. I am pleased to say that, in both cases, negotiations underway at that time have resulted in lettings to tenants of undoubted covenant on leases with 15 year terms certain and a combined contracted rent of £2.60

million pa. As these lettings were completed close to the year end, they contributed only £280,000 to gross rents, which increased overall by £1.34 million to £15.77 million. Next year will see a full rental contribution from these top quality buildings, which are valuable additions to the portfolio.

During the year, shareholders' funds grew by 21.9% to £165.96 million from £136.18 million. This increase reflects the strong valuation performance resulting from the success of the development programme, increased portfolio rents and the continued improvement in capital values, and demonstrates the strength of the property market in the South East of England, which is the main focus of the Group's investment and development activities.

In this market, our objective continues to be the generation of longer term capital and income growth for shareholders by selectively adding properties to the portfolio in established and improving centres that provide the opportunity to release further value from development, refurbishment and active portfolio management. Our market reputation is for quality buildings in locations favoured by occupiers, which in turn attract quality tenants, providing the opportunity to achieve more resilient rental income on longer leases.

The acquisition of Lotus Park in Staines for £27.65 million in July 2005 was consistent with this approach, adding four well-specified office buildings to the portfolio totalling 77,125 sq ft in this first class location close to Heathrow. Since purchase, the tenant has paid a premium of £4.60 million (equivalent in total to 5.5 years' rent) to surrender the leases of two of the buildings totalling 32,690 sq ft that it no longer occupied, thus enabling us to put in hand a comprehensive refurbishment. £3.7 million of the premium has been treated under the Group's accounting policies as a one-off contribution to income this year, effectively providing income in advance of the period during which the buildings will be refurbished and re-let.

Elsewhere, the development programme includes refurbishment of the offices at Dacre House, SW1 (10,776 sq ft) which is due for completion this summer and the future redevelopment of 30/32 Lombard Street, EC3 (36,140 sq ft), where a fresh planning application for an improved office scheme will be submitted shortly.

The contribution to pre-tax profit this year from the sale of investment properties was £167,000; sales comprised Newminster House, Bristol (27,520 sq ft) and the final unit at Burnham (2,195 sq ft), which together released net proceeds of £5.55m.

Since the year end, contracts have been exchanged for the sale of the former distribution depot in Chobham where, after years of difficulties and a protracted planning process, planning consent was finally obtained during the year for 54 residential units. The contracted sale price of £9.75 million was substantially in excess of the historical cost of £670,000 and marginally in excess of the 31st March 2006 valuation, which reflected the level of offers being made at the time of the valuation. The letting of Pegasus Three, Crawley (16,400 sq ft) on a 15 year term certain to a substantial Swiss Group and a further 12,400 sq ft in Chancery House, Sutton is also encouraging progress since the year end.

Real Estate Investment Trusts (REITs)

Following an announcement in the 2006 Budget, the Government has now published draft legislation within the 2006 Finance Bill to bring in a REIT structure from January 2007. The cost of entering the tax exempt regime has been set at 2% of the market value of assets as at the date of transfer, which in our case would amount to approximately £6 million based on current year end values. REITs will be required to pay out at least 90% of the taxable income profits of the property letting business to shareholders but will not have to pay corporation tax on income and capital gains. This latter saving would remove the need to provide for deferred tax on valuation surpluses, adding £26.71 million to shareholders' funds based on the 2006 accounts, with the overall result being an increase in net asset value per share of approximately 59 pence. Our initial interpretation of the draft legislation is that the presence of a shareholding of 10% or more will not be a barrier to entry. Further regulations on this, and other issues raised by the Finance Bill, are due to be published by the Government later this year. We are giving serious consideration to the details so far published and will monitor further publications closely as this could be an attractive future structure for the Group.

Board Changes

Iain McKay will be retiring from the Board at the conclusion of this year's AGM in July, after a period of 38 years, which included his position as Chairman from 1986 to 2003. I have personally had the pleasure of working closely with Iain over this period of time, both in my former capacity as Managing Director and latterly as Chairman, and his support and commitment to the Group has been tremendous. As a major shareholder, Iain will continue to take a keen interest in the Group's progress.

Ian Menzies, who joined the Board in 1989, retired at the end of March. Ian has also made a significant contribution to the Board, particularly as Chairman of the Audit Committee, and his astute advice has been of great assistance to the Group in its expansion over the last 17 years.

We shall miss them both greatly and on behalf of the Board I would like to thank them for their dedication and support over such a long period of time.

We are delighted to welcome two new Directors. David Thomas joined us last September. He is a chartered accountant with an extensive business background and has taken over from Ian Menzies as Chairman of the Audit Committee. Nigel Aslin joined the Board at the beginning of May. He is a chartered surveyor and the Partner responsible for Strutt & Parker's Reading office and their Corporate Real Estate department. His thorough knowledge of, and contacts within, the South East commercial property market will be of valuable assistance.

Future Prospects

Over the last few years the popularity of property as an asset class has resulted in demand generating a substantial increase in capital values, while rents in the South East have generally stabilised at a lower base level. The weight of money available for investment in commercial property shows no sign of reducing, but future capital growth is likely to be more dependent on improving rental values now that prime yields are at a level close to the cost of debt. The successful lettings this year confirm that quality buildings will attract occupiers, and there are now areas in the South East where supply is becoming limited.

In this environment, the Group's portfolio of quality buildings is well positioned to benefit from rental growth, which will become more apparent as the available supply of prime stock continues to fall. Substantial protection from interest rate rises is in place; balance sheet gearing remains at a reasonable level and funds are available for further investment. With the full benefit of income from recent lettings still to come through and further quality refurbishments due to be completed during this financial year, we remain confident of future growth.

E.S.G. Lloyd

PROPERTY AND FINANCIAL REVIEW

Portfolio Review

The Group's portfolio consists of 31 properties concentrated in the South East with a value at 31st March 2006 of £303.18 million, representing an increase of 13.4%. The portfolio totals 1.24 million sq ft, of which 75% was either developed or extensively refurbished by the Group and subsequently held for investment purposes rather than traded. Design briefs on projects emphasise the need for quality in order to maximise the chances of securing longer leases to prime tenants and to minimise potential future obsolescence. The result of this approach is a portfolio with a weighted average lease length of 9.9 years and security of income, with 68% of all contracted rents paid by Government tenants or those with the highest Dun and Bradstreet credit rating of 5A (tangible net worth in excess of £35 million).

The letting market during the year remained variable, with occupier demand continuing to be focused on quality buildings. Generally speaking, rents have been steady with letting incentives beginning to show signs of reducing. In central London rental values have been moving upwards, particularly in the West End, where demand is beginning to exceed supply. Investors appear to have had little regard to variations in the occupational market and the weight of funds from a wide range of sources has continued to push prices higher for all sectors, resulting in higher levels of risk with lower income returns.

Income

Net rental income from investment properties received during the year increased by 37.6% to £18.37 million, including a £1.34 million net gain in gross rents to £15.77 million, and an additional one-off surrender premium of £3.70 million in respect of Lotus Park. After allowing for the loss of £804,000 of rent from properties sold or undergoing redevelopment in comparison with the year to 31st March 2005, the overall increase in gross rents totalled £2.14 million, of which £1.16 million was attributable to Lotus Park and £984,000 to lettings and rent reviews. Fifteen lettings were completed during the year with a combined contracted rent of £3.23 million pa. The most significant of these were in respect of Wimbledon Gate (offices and retail – 58,690 sq ft) and 1 Old Queen Street, SW1 (offices – 21,875 sq ft).

Refurbishment work within the portfolio has continued to help generate lettings. Thatcham (offices – 16,260 sq ft) is now fully let and take up at Folkestone (industrial – 106,215 sq ft) and Portsoken House, EC3 (offices and retail – 48,000 sq ft) leave these properties with minimal voids. At Chancery House, Sutton (offices – 54,615 sq ft) the comprehensive refurbishment of the reception, common areas and a number of office floors was completed in mid 2005. Since then, good progress has been made, with 10,700 sq ft let during the year and a further 12,400 sq ft let since the year end, leaving 2,400 sq ft being actively marketed.

Lettable area, excluding ongoing development and refurbishment projects, available at the year end totalled 130,500 sq ft, consisting mainly of floor space at Petersfield, Hook, Crawley and the ground floor retail unit at Wimbledon Gate. In the early part of the year, the long-standing tenant of our 50,000 sq ft industrial unit in Petersfield vacated at the expiry of its lease and after minor refurbishment work, the building is being marketed. The ground floor of Bartley House, Hook (10,650 sq ft) remains vacant, where this part of the M3 office market continues to experience oversupply. At Pegasus Place, Crawley (offices - 50,035 sq ft), steady interest in the buildings has continued and, since the year end, Pegasus Three (16,400 sq ft) has been let to a large Swiss Group on a 15 year term certain lease at a contracted rent of £377,635 pa. The quality of the tenant and the length of the lease supported our confidence that the building would eventually let well. This leaves only two floors available in Pegasus One, totalling 9,946 sq ft.

Also contributing to rental growth this year was the settlement of a rent review in respect of 59,000 sq ft of office floor space occupied by Student Loans Company Ltd, the Government backed agency, in 100 Bothwell Street, Glasgow (100,270 sq ft). The rent increased by 15%, which together with back rent, added £181,250 to income.

At the year end the portfolio's annualised rental income, net of ground rents, was £17.44 million. The total rental value of the portfolio at current market rents is estimated to be in excess of £20 million pa.

Development

The two main speculative development projects under construction at the start of the year were Wimbledon Gate, SW19 and 1 Old Queen Street, SW1; these were completed in September 2005 and January 2006 respectively. At Wimbledon, discussions commenced with Domestic & General Group Plc shortly after building works finished, culminating in a 15 year lease at a contracted rent of £1.55 million pa. The tenant of 1 Old Queen Street is also of undoubted covenant strength. Here the building was let prior to completion on a 20 year lease, with a tenant only break clause at the end of the fifteenth year and a contracted rent of £1.05 million pa. This lease was completed at the end of January. With the benefit of strong covenants and a term certain of 15 years in both cases, these two early lettings helped generate a 42% combined return.

In Victoria, SW1, the comprehensive refurbishment of Dacre House started in September 2005 following the tenant's vacation of the office floors (10,776 sq ft) earlier in the year. Works to upgrade the building include new plant and machinery, conversion of the redundant plant room at top floor level to gain office floor space and the remodelling and enlargement of the existing reception area. Completion will be this summer, when a full marketing programme will be implemented.

When Lotus Park, Staines (77,125 sq ft) was acquired last July, two of the four office buildings held by IBM on leases until March 2013 were unoccupied. This gave us the opportunity to negotiate a payment from the tenant for the surrender of these leases and to put in hand refurbishment and improvement works with a view to re-letting into an improving market. In March, a surrender of the buildings known as Lotus 1 and 2 was finalised and works are due to commence shortly which will include the addition of striking new reception areas, new external glazing and a comprehensive upgrading of the external landscaping and parking areas. Completion of the works is planned for next spring, and the proposals are already generating occupier interest. We anticipate that the projected opening of Terminal 5 at Heathrow in March 2008, which lies just to the north of Staines, will increase the popularity of this Thameside / western M25 location, assisting upward pressure on rents. IBM remain in occupation of Lotus 3 and 4 (44,435 sq ft) until March 2013.

Planning consent was finally granted for 54 residential units at Chobham in October 2005, after a protracted planning process that has taken 9 years. The Group acquired the site in 1970 and developed a 50,000 sq ft distribution depot. With the potential for a significant uplift in value from a planning consent to allow residential development, various schemes were promoted but despite general planning policy support for the re-use of brownfield land, the site's greenbelt status generated a highly restrictive policy framework. Ultimately consent was achieved by promoting a detailed scheme with an environmentally innovative design. An extensive marketing campaign generated strong interest and contracts were exchanged after the year end at a sale price of £9.75 million for a total of 10.5 acres, of which 3.9 acres were developable. The Group has retained 8.5 acres of woodland next to the scheme which may have some longer term potential.

Looking ahead, progress continues to be made in respect of the proposed redevelopment of 30/32

Lombard Street, EC3 (offices – 36,140 sq ft). When the building was purchased in 2000, it had a planning consent in place for an office scheme of 53,280 sq ft, with leases expiring in December 2005. The leases have been extended to enable vacant possession to be obtained from January 2008 onwards, and a planning application for a more contemporary scheme with an increased lettable area in the region of 68,000 sq ft is due to be submitted before the end of July. Also in the City, studies are continuing in respect of Portsoken House, EC3 (48,075 sq ft), an attractive period office building in a prominent position on the edge of the eastern City core. Leases expire in December 2008 and options include comprehensive refurbishment, redevelopment or a rolling refurbishment.

Valuation

The annual external valuation of the Group's portfolio as at 31st March 2006 was £303.18 million, generating a £35.87 million surplus over book value, an increase of 13.4% overall. Strong demand from investors has continued to push values higher, particularly for secure long term income. The benefit of this yield compression has been seen across the portfolio, particularly where income has been increased through lettings and rent reviews. The office portfolio increased by 11.1% and the development properties let during the year performed particularly well due to the covenant strength and lease length secured. The remaining 16 years of the lease at Great Brighams Mead, Reading (offices – 84,840 sq ft) was assigned during the year to a tenant with greater covenant strength which assisted the valuation, and Castle Lane, SW1 (offices – 14,180 sq ft) also performed well following last year's refurbishment. Industrial properties rose by 24.3% with the largest increase being in respect of Chobham due to the receipt of planning consent for residential development, and at Egham (industrial – 89,000 sq ft), where the lease was regeared to secure income for a further 10 years.

The total portfolio return of 20% reflects the strong growth in income from investment properties and the extent of the valuation surplus.

Finance

The Group adopted International Financial Reporting Standards (IFRS) with effect from 1st April 2005. The Group's Interim Statement issued on 14th December 2005 explained the changes and presented reconciliations to past results previously reported in accordance with UK GAAP.

At 31st March 2006, the Group's net debt was £107.94 million (2005 - £78.72 million) representing 65% of shareholders' funds (2005 – 58%). The increase in debt in the year was predominantly due to the purchase of Lotus Park, Staines and capital expenditure of £9.75 million incurred in completing the developments of Wimbledon Gate and 1 Old Queen Street. After taking into account the contribution from sales of £5.55 million (2005 - £4.66 million), net investment in the portfolio for the year was £36.01 million (2005 - £4.91 million).

Total banking facilities available to the Group increased during the year by £35 million to £143 million, as a result of the renegotiation of two of the Group's six fully revolving facilities. If fully drawn, balance sheet gearing would increase to 86% of shareholders' funds. The loan to value ratio as at 31st March 2006 was 36% (2005 – 34%). Net cash flow from operating activities was £9.15 million (2005 - £3.89 million).

At the year end, 64% (2005 – 71%) of the Group's facilities had a maturity in excess of 5 years. Short term flexibility is achieved by overdraft and a variety of interest rate periods.

The Group tax charge of £12.72 million can be analysed between deferred tax of £12.01 million and current tax of £712,000 giving an effective rate of 27.6% on the profit before tax. The current tax charge as a percentage of adjusted profit before tax is 10.8% mainly reflecting the benefit of capital allowances claimed on plant and machinery in the investment portfolio and interest capitalised on developments. The deferred tax charge is primarily on the revaluation surpluses arising on investment properties in the year.

Under IFRS the cost of the final dividend recommended for the year is no longer shown as a deduction from profit in the income statement, but as a deduction from reserves.

Interest cover, based on adjusted profit before tax plus finance costs as a ratio to finance costs, was 2.3 (2005 – 2.7). The average cost of borrowing for the year was 5.9% (2005 – 6.1%).

The main financial risks to the Group are tenant default, liquidity risk and interest rate risk. Tenant default is monitored by Dun and Bradstreet credit checks being carried out for each new tenant, together with ongoing credit checks and strict credit control. Protection against the latter two risks is provided by financial hedging instruments and at the year end £80 million (74%) of debt was protected by participating swaps compared with £52 million (65.8%) last year. If fully drawn, cover would be 55.9%. This increase was considered prudent given the Group's increased borrowing levels and provides strategic protection at competitive levels over the medium to long term in the current low interest rate environment. This protection has been extended since the year end, with completion of a further £20 million swap facility at a fixed rate of 3.99% for an initial term of 8 years. The Group does not hedge account its interest rate derivatives and therefore includes the movement in fair value in the income statement.

S.C. Perkins
A.S. Childs

The summary of the consolidated results of McKay Securities PLC and its subsidiary undertakings (the "Group") for the year ending 31st March 2006 are as follows:

GROUP INCOME STATEMENT
For the year ended 31st March 2006

	Notes	**2006 £'000**	2005 £'000
Gross rents and service charges receivable		**18,353**	17,241
Surrender premiums received		**3,700**	-
		22,053	17,241
Direct property outgoings		**(3,684)**	(3,896)
Net rental income from investment properties	2	**18,369**	13,345
Administration costs		**(3,288)**	(2,665)
Operating profit before gains on investment properties		**15,081**	10,680
Profit on disposal of investment properties		**167**	568
Movement on revaluation of investment properties		**35,247**	13,253
Operating profit		**50,495**	24,501
Finance costs	4	**(5,344)**	(4,143)
Finance income		**50**	49
Share of results of associated undertaking		**807**	541
Profit before taxation		**46,008**	20,948
Taxation	5	**(12,719)**	(4,058)
Profit for the period		**33,289**	16,890
Earnings per share	6		
Basic		**73.06p**	37.16p
Diluted		**72.43p**	36.96p

Adjusted earnings per share figures are shown in note 5.

Dividends		
Previous year's final dividend of 6.2p (2004 – 5.9p) paid during the year	**2,824**	2,670
Interim dividend of 3.4p (2005 – 3.2p) paid during the year	**1,549**	1,460
Proposed final dividend of 6.8p (2005 – 6.2p)	**3,101**	2,824

STATEMENT OF RECOGNISED INCOME AND EXPENSE
For the year ended 31st March 2006

	2006 Group £'000	2006 Company £'000
Actuarial movement on defined benefit pension scheme	**370**	**370**
Related deferred tax	**(111)**	**(111)**
Net income recognised directly in equity	**259**	**259**
Profit for the year	**33,289**	**26,935**
Total recognised income and expense for the year	**33,548**	**27,194**
Adoption of IAS 39 (note 8)	**285**	**285**
Deferred tax on adoption of IAS 39	**(83)**	**(83)**
Total recognised income and expense	**33,750**	**27,396**

	2005 Group £'000	2005 Company £'000
Actuarial movement on defined benefit pension scheme	(30)	(30)
Related deferred tax	9	9
Exchange gain	8	-
Net income recognised directly in equity	(13)	(21)
Profit for the year	16,890	13,457
Total recognised income and expense for the year	16,877	13,436

GROUP BALANCE SHEET
For the year ended 31st March 2006

	Notes	**2006 £'000**	2005 £'000
Non-current assets			
Investment properties		**304,687**	234,196
Plant and equipment		**73**	64
Investments		**5,700**	5,019
		310,460	239,279
Current assets			
Trade and other receivables	7	**3,633**	2,992
Cash and cash equivalents		**1,838**	2,271
		5,471	5,263
Total assets		**315,931**	244,542
Current liabilities			
Loans and other borrowings	8	**(15,016)**	(792)
Corporation tax payable	5	**(274)**	(688)
Trade and other payables	8	**(8,260)**	(6,328)
		(23,550)	(7,808)
Non-current liabilities			
Loans and other borrowings	8	**(94,543)**	(80,195)
Pension fund liabilities		**(701)**	(1,189)
Finance lease liabilities		**(4,469)**	(4,469)
Deferred tax		**(26,708)**	(14,697)
		(126,421)	(100,550)
Total liabilities		**(149,971)**	(108,358)
Net assets		**165,960**	136,184
Equity			
Called up share capital		**9,122**	9,110
Share premium account		**2,208**	2,115
Capital reserves		**36,065**	34,523
Revaluation reserve		**87,599**	64,716
Retained earnings		**30,966**	25,720
Total Equity		**165,960**	136,184
Net asset value per share	9	**364p**	299p
Adjusted net asset value per share	9	**421p**	330p

GROUP CASH FLOW STATEMENT
For the year ended 31st March 2006

	2006 £'000	2005 £'000
Operating activities		
Profit before tax	**46,008**	20,948
Adjustments for:		
Depreciation and other non-cash movements	**417**	17
Profit on disposals of investment properties	**(167)**	(568)
Movement in revaluation of investment properties	**(35,247)**	(13,253)
Net finance costs	**5,294**	4,094
Share of profit of associate undertaking	**(807)**	(541)
Cash flow from operations before changes in working capital	**15,498**	10,697
Increase in debtors	**(606)**	(3)
Increase/(decrease) in creditors	**1,636**	(81)
Cash generated from operations	**16,528**	10,613
Interest paid	**(6,294)**	(5,251)
Interest received	**37**	44
Corporation tax paid	**(1,126)**	(1,519)
Cash flows from operating activities	**9,145**	3,887
Investing activities		
Sale of investment properties	**5,547**	4,663
Dividends from sundry investments	**1**	1
Dividends from associated undertaking	**126**	117
Purchase and development of investment properties	**(39,503)**	(8,846)
Purchase of other fixed assets	**(52)**	(21)
Cash flows from investing activities	**(33,881)**	(4,086)
Financing activities		
Proceeds from issue of share capital	**104**	366
Increase in borrowings	**28,572**	4,627
Equity dividends paid	**(4,373)**	(4,130)
Cash flows from financing activities	**24,303**	863
Net (decrease)/increase in cash and cash equivalents	**(433)**	664
Cash and cash equivalents at the beginning of the year	**2,271**	1,607
Cash and cash equivalents at the end of the year	**1,838**	2,271

Notes forming part of the Group financial statements

1. The financial information set out in this preliminary announcement does not constitute the Company's statutory accounts for the year ended 31st March 2006 but is derived from those accounts. Statutory accounts for 2005 have been delivered to the Registrar of Companies, and those for 2006 will be delivered following the Company's Annual General Meeting. The auditors have reported on those accounts; their reports were unqualified and did not contain statements under section 237(2) or (3) of the Companies Act 1985.

These financial statements are the first to be prepared on the basis of the recognition, measurement and disclosure requirements of applicable International Financial Reporting Standards as adopted by the European Union (IFRS) which have been adopted by the Group and Company and incorporated into the principal accounting policies. From 1st January 2005, all listed companies trading on a regulated market in any European Union member state are required to adopt this basis of accounting in their consolidated accounts. The Interim Statement issued on 14th December 2005 explained the changes and presented reconciliations to past results previously reported in accordance with UK GAAP.

In accordance with Section 230 of the Companies Act 1985 a separate income statement for McKay Securities PLC is not presented. The profit after tax of the Company is £27,855,000 (2005 - £13,457,000).

2. **Net rental income from investment properties**

	2006	2005
	£'000	£'000
Gross rents receivable	**15,150**	14,318
SIC 15 adjustment	**623**	115
Gross rental income	**15,773**	14,433
Service charges receivable	**2,580**	2,808
	18,353	17,241
Surrender premium received	**3,700**	-
Direct property outgoings	**(3,684)**	(3,896)
	18,369	13,345

The Group engages in only one class of business activity, being property investment and development.

Rent receivable under the terms of the leases is adjusted, in accordance with SIC 15, for the effect of any incentives given.

3. Adjusted profit before tax

Adjusted profit before tax is the Group's preferred measure to provide a clearer picture of recurring profits from core rental activities before tax, adjusted as set out below.

	2006 £'000	2005 £'000
Profit before tax	**46,008**	20,948
Surrender premium received	**(3,700)**	-
Change in fair value of derivatives	**263**	-
Movement in revaluation of investment properties	**(35,247)**	(13,253)
Profit on disposal of investment properties	**(167)**	(568)
Associated undertaking disposals and revaluation movement	**(588)**	(347)
Adjusted profit before tax	**6,569**	6,780

4. Finance costs

	2006 £'000	2005 £'000
Interest on bank overdraft and loans	**5,930**	4,640
Finance lease interest on leasehold property obligations	**289**	289
Change in fair value of derivatives	**263**	-
Amortisation of loan facility costs	**15**	-
Other interest	**8**	-
	6,505	4,929
Capitalised interest	**(1,161)**	(786)
	5,344	4,143

5. Taxation

	2006 £'000	2005 £'000
Analysis of charge in period:		
Current tax:		
UK corporation tax on profits for the period	**712**	1,070
Adjustments in respect of prior periods	**-**	(33)
	712	1,037
Total current tax		
Deferred tax:		
Origination and reversal of temporary differences	**12,007**	3,021
Total tax charge in the income statement	**12,719**	4,058

Reconciliation to effective rate of tax:

Current tax reconciliation:

Profit before tax	**46,008**	20,948
	---------	---------
Tax on profit at 30% (2005 – 30%)	**13,802**	6,284
Effects of:		
Expenses not deductible for tax purposes	**11**	14
Deferred tax released on sale of investment properties	**(29)**	(88)
Associated undertaking	**(242)**	(162)
Chargeable gains on sale of investment property	**(50)**	(170)
Movement on revaluation of investment properties	**(773)**	(1,787)
Adjustment to tax charge in respect of prior years	**-**	(33)
	---------	---------
Tax charge for period (as above)	**12,719**	4,058
	---------	---------

Factors affecting future tax rate:
Capital allowances are claimed on eligible investment assets and calculated on the reducing balance. The availability of capital allowances in excess of depreciation in future years will depend on the Group's ongoing development and acquisition programme.

The current Group corporation tax payable of £274,000 (2005 - £688,000) represents the tax payable for current and prior periods less payments made.

6. Earnings per share

	2006	2005
	p	p
Earnings per share	**73.06**	37.16
Deferred tax on capital allowances	**2.12**	0.87
Surrender premium received	**(8.12)**	-
Change in fair value of derivatives	**0.59**	-
Movement in revaluation of investment properties	**(53.59)**	(24.05)
Profit on disposal of investment properties after taxation	**(0.37)**	(1.44)
Associated undertaking disposals and revaluation movement	**(1.29)**	(0.76)
	---------	---------
Adjusted earnings per share	**12.40**	11.78
	--------	--------

Earnings per share on ordinary shares are based on earnings after tax of £33,289,000 (2005 - £16,890,000) and 45,561,331 (2005 – 45,458,192) shares, being the weighted average number of ordinary shares in issue during the period.

Reconciliation of earnings per share to diluted earnings per share:

	Number of shares	**EPS 2006**	EPS 2005
		p	p
Weighted number of ordinary shares in issue	45,561,331	**73.06**	37.16
Number of shares under option	1,459,968	**(2.27)**	(0.89)
Number of shares that would have been issued at fair value	(1,058,602)	**1.64**	0.69
	----------------	**--------**	--------
	45,962,697	**72.43**	36.96
	----------------	**--------**	--------

	2006	2005
	p	p
Diluted earnings per share	**72.43**	36.96
Deferred tax on capital allowances	**2.10**	0.87
Surrender premium received	**(8.05)**	-
Change in fair value of derivatives	**0.56**	-
Movement in revaluation of investment properties	**(53.12)**	(23.92)
Profit on disposal of investment properties after taxation	**(0.36)**	(1.43)
Associated undertaking disposals and revaluation movement	**(1.28)**	(0.76)
	---------	---------
Adjusted diluted earnings per share	**12.28**	11.72
	---------	---------

Diluted earnings per share are based on the same earnings after tax and on the weighted average number of shares in issue during the year of 45,962,697 (2005 – 45,704,522) shares, which takes into account the number of potential ordinary shares arising from the exercise of share options.

Adjusted earnings per share excludes the after tax effect of profit from the disposal of investment properties, the effect of surrender premium received, the change in the fair value of derivatives and the movement in revaluation of investment properties, as well as the deferred tax provided on capital allowances and investment properties, where no tax payment is expected to crystallise.

7. **Trade and other receivables**

	2006		2005	
	Group	**Company**	Group	Company
	£'000	**£'000**	£'000	£'000
Rents receivable	**221**	**23**	52	52
Amounts due from subsidiary undertakings	**-**	**12,903**	-	12,465
SIC 15 lease incentives	**2,695**	**2,652**	2,071	2,071
Interest rate derivatives	**22**	**22**	-	-
Other debtors and prepayments	**695**	**280**	869	364
	--------	**--------**	---------	--------
	3,633	**15,880**	2,992	14,952
	--------	**--------**	--------	--------

All the above debtors are receivable within one year except for lease incentives of £2,443,000 (2005 - £1,862,000), accrued in accordance with SIC 15.

8. **Liabilities**

Loans and other borrowings	**2006 Group £'000**	**2006 Company £'000**	2005 Group £'000	2005 Company £'000
Bank loans	**109,765**	**103,415**	80,940	74,220
Loan notes	**13**	**13**	47	47
Bank facility fees	**(219)**	**(219)**	-	-
	109,559	**103,209**	80,987	74,267
Analysed as follows:				
Current liabilities	**15,016**	**14,616**	792	422
Non-current liabilities	**94,543**	**88,593**	80,195	73,845
Trade and other payables	**109,559**	**103,209**	80,987	74,267
Rent received in advance	**3,271**	**2,392**	3,015	2,127
Other taxation and social security costs	**848**	**848**	182	182
Amounts owed to subsidiary undertakings	**-**	**26,495**	-	24,902
Other creditors and accruals	**4,141**	**2,700**	3,131	1,469
Trade and other payables	**8,260**	**32,435**	6,328	28,680

The analysis of unsecured loan notes and short term loans, and bank loans which are secured on certain of the freehold and leasehold properties of the Group is as follows:

	2006 £'000	2005 £'000
Company		
Secured bank loans repayable at stated dates between 2006 and 2017 at variable rates	**103,415**	74,220
Unsecured loan notes repayable in April 2006 at variable rates	**13**	47
Bank facility fee	**(219)**	-
	103,209	74,267
Subsidiary undertakings		
Secured bank loans repayable at stated dates between 2006 and 2007 at variable rates	**6,350**	6,720
	109,559	80,987

The bank loans are secured against land and buildings with a carrying amount of £217,246,000 (2005 - £175,270,000).

Repayable in:	**2006 Group £'000**	**2006 Company £'000**	2005 Group £'000	2005 Company £'000
Less than 1 year	**15,016**	**14,616**	792	422
1-2 years	**5,928**	**(22)**	20,975	14,625
2-5 years	**24,334**	**24,334**	9,000	9,000
5-10 years	**48,281**	**48,281**	13,500	13,500
More than 10 years	**16,000**	**16,000**	36,720	36,720
	109,559	**103,209**	80,987	74,267

Borrowing facilities
The Group has various undrawn committed borrowing facilities. The facilities available in respect of which all conditions precedent had been met were as follows:

	2006 £'000	2005 £'000
Expiring in less than 1 year	**-**	-
Expiring in 1 - 2 years	**-**	-
Expiring in 2 - 5 years	**5,600**	-
Expiring in 5 - 10 years	**23,610**	20,280
Expiring in more than 10 years	**4,000**	6,500
	33,210	26,780

Exposure to credit and interest rate risks arise in the normal course of the Group's business. Derivative financial instruments are used to reduce exposure to interest rate fluctuations.

There are no material unrecognised gains and losses on instruments used for hedging.

Credit risk
Credit evaluations are performed on all tenants looking to enter into a lease or pre-lease agreements with the Group. In certain cases the Group will require collateral to support these lease obligations. These might be in the form of cash rental security deposits, bank rental guarantee or a parent company guarantee.

At the balance sheet date there were no significant concentrations of credit risk. The maximum exposure to credit risk is represented by the carrying amount of each financial asset including derivative financial instruments on the balance sheet.

The group has no exposure to currency risks.

Hedging
The Group adopts a policy of ensuring that its exposure to interest rate fluctuations is mitigated by the use of financial instruments. Participating swaps have been entered into to achieve this purpose. The swaps mature over the next 14 years, matching the maturity of the related loans and have swap rates ranging from 4.90% to 5.07% and collars ranging from 2.49% to 2.95%. The Group does not hold or issue derivative financial instruments for trading purposes.

Participating swaps

	Hedged amount £m	Average rate	Average Maturity - years	Fair value £m	Fair value Adjustment £m
Interest rate swaps	40.0	5.01%	10.41	1.172	(1.172)
Interest rate caps	40.0	5.01%	10.41	(1.472)	1.472
Interest rate floors	40.0	2.80%	10.41	0.278	(0.278)
				--------	--------
				(0.022)	0.022
				--------	--------

In both 2006 and 2005 there was no difference between the book value and the fair value of all the other financial assets and liabilities of the Group and Company.

Set out below is the interest rate profile of the Group after taking into account the interest rate hedging instruments:

	2006 £'000	2005 £'000
Fixed rate	**6,350**	6,720
Floating rate	**23,209**	24,267
Hedged	**80,000**	50,000
	----------	---------
	109,559	80,987
	----------	---------
Weighted average cost of borrowing	**5.9%**	6.1%
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The Group does not hedge account its interest rate derivatives and therefore states them at fair value in the income statement.

The Group has no liabilities at maturity on the above financial instruments. The above fair values are based on quotations from the Group's banks.

The fair value adjustment of these instruments as at 1st April 2005 was passed through reserves, in accordance with the transition arrangements allowed by IFRS 1 in relation to adoptions of IAS 39 the figure being as follows:

	£'000
Loss on interest rate swaps	(287)
Gain on interest rate caps	650
Loss on interest rate floors	(78)

	285
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9. **Net asset value per share**

	2006 Net Assets	**Shares**	**Net asset value per share**	2005 Net assets	Shares	Net asset value per share
	£'000	**'000**	**p**	£'000	'000	p
Basic	**165,960**	**45,609**	**364**	136,184	45,551	299
Deferred tax on capital Allowances	**6,308**	**-**	**14**	5,342	-	12
Deferred tax on Revaluation	**19,600**	**-**	**43**	8,771	-	19
Adjustment to fair value of derivatives net of deferred tax	**(15)**	**-**	**-**	-	-	-
Adjusted	**191,853**	**45,609**	**421**	150,297	45,551	330
Number of shares under Option	**3,104**	**1,479**	**(7)**	2,228	1,214	(4)
Adjusted diluted	**194,957**	**47,088**	**414**	152,525	46,765	326

10. The Report and Financial Statements will be posted to shareholders on 27th June 2006 with copies available from the Group's registered office at 20 Greyfriars Road, Reading, RG1 1NL from the same date, and from the Group's website www.mckaysecurities.plc.uk